

NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY (PUBLIC ORGANISATION)

No. 113/2022
15 July 2022

GOVERNMENTS

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 30/07/21

Company Rating History:

Date	Rating	Outlook/Alert
17/07/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA) at “AAA” with a “stable” rating outlook. The rating reflects NEDA’s status as a government-related entity (GRE) with an “integral” link to the Thai government. The rating also reflects our view that NEDA’s foreign public policy roles are “critical” to the government. In TRIS Rating’s opinion, the likelihood that NEDA will receive extraordinary support from the government in times of financial stress is a near certainty.

KEY RATING CONSIDERATIONS

Integral link with the Thai government

NEDA’s issuer rating reflects its status as a GRE which has an integral linkage with the Thai government. The Thai government has full ownership and control over the organisation. NEDA is under the supervision of the Ministry of Finance (MOF). Its board of directors also comprises representatives of government agencies.

NEDA has a unique role in executing foreign social, political, and economic policies on behalf of the government in promoting joint economic development with neighbouring and other countries. These activities are primarily non-commercial and are held only between governments. Further, NEDA’s strategies are aligned with the “20-Year National Strategy” (2018-2037) and the “13th National Economic and Social Development Plan” (2023-2027). As such, it is unlikely that a private entity could assume its roles.

In our opinion, a default by NEDA on its debt obligations would severely damage the Thai government’s reputation since NEDA’s debt constitutes public debt. According to the Public Debt Management Office (PDMO), NEDA’s debt constitutes non-guaranteed public debt.¹ Under the public debt management plan, NEDA is required to obtain government approval when incurring indebtedness.

Government subsidies as the main revenue source

TRIS Rating expects the government to continue providing operational subsidies to NEDA as part of its ongoing support. Government subsidies have been the main funding source for NEDA’s loan assets, financial grants, and technical assistance to recipient countries. The subsidies NEDA receives each year are provided in anticipation of its future funding needs and available cash balances. NEDA’s profit and loss statement treat government subsidies as revenue.

Between fiscal years (FY) 2019 to 2021, government subsidies made up over 85% of NEDA’s total revenue. Net interest income made up the majority of the remainder. Over 50% of NEDA’s expenditures consisted of financial grants and technical assistance, followed by operating expenses (29%) and interest expenses (16%).

The likelihood of government support drives the rating

The issuer rating on NEDA is driven by our view on the likelihood of NEDA receiving timely and sufficient government support in times of need. Government subsidies are provided through ordinary government budgeting cycles to ensure NEDA has sufficient funding to execute approved projects. Even if NEDA incurred substantial losses from its lending activities, we believe the government would provide

¹ According to the PDMO’s website: www.pdmo.go.th

sufficient funding to cover the losses. All of NEDA's loan extensions are provided to support government policies and require approvals from the Cabinet. The supporting documents for each project submitted for the Cabinet approval contain a clause, which permits NEDA to request additional government subsidies to meet its debt obligations, should any of its borrowers default.

Maintaining a strategic focus and healthy balance sheet

We expect NEDA to maintain its strategic focus on basic infrastructure projects in high-priority countries over the next few years. These include the Lao People's Democratic Republic (Lao PDR), the Kingdom of Cambodia, and the Republic of the Union of Myanmar. Challenges faced by some neighbouring countries should delay, rather than undermine NEDA's development efforts in these countries. Specifically, NEDA has taken a cautious approach by closely monitoring the sovereign credit risks of the Lao PDR, and prioritising projects with direct mutual economic benefits with Thailand. Relaxed travel restrictions from mid-2022 should allow several of NEDA's project developments in the country to resume. For Myanmar, NEDA will only execute projects that have previously been approved, though ongoing political unrest is likely to continue to undermine progress.

As of March 2022, NEDA's total loans to neighbouring countries, excluding receivables, amounted to THB10.2 billion. These comprised loan extensions to the governments of the Lao PDR (93% of total loans) and Cambodia (7%).² NEDA's total loans rose from THB9.1 billion as of September 2020. At present, NEDA has no loan exposure to Sri Lanka, Bhutan, or Timor-Leste.

NEDA has maintained a conservative policy to cap its debt-to-equity (D/E) ratio at 0.5 times. NEDA's D/E ratio stood at a low of 0.25 times, as of March 2022. Cash and short-term deposits were THB1.7 billion at the end of March 2022.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that NEDA will maintain its status as a GRE, integrally linked to the Thai government. We also expect NEDA to continue its role as a government body, carrying out government policies on economic development cooperation with neighbouring countries, with ongoing financial support from the government.

RATING SENSITIVITIES

The credit rating and/or outlook of NEDA could change if our view on the linkage and/or importance of NEDA to the Thai government changes.

ORGANISATION OVERVIEW

NEDA was established on 17 May 2005 under Thailand's Royal Decree on the Establishment of Neighbouring Countries Economic Development Cooperation Agency, B.E. 2548, announced in the Royal Gazette, Volume 122, Part 39A, dated 16 May 2005.

NEDA is a public agency which, according to the Public Organisation Act, B.E. 2542, has its organisational objective of providing public services that are not primarily profit-driven. NEDA's main objectives are to provide neighbouring countries and other countries with financial and technical assistance and to promote joint economic development with these countries.

The objectives, authority, and functions of NEDA are stipulated in Section 7 of the Royal Decree, as follows: 1) to provide neighbouring countries and other countries with financial and technical assistance; 2) to cooperate with neighbouring countries in economic development; 3) to conduct studies and provide recommendations on cooperation policies and measures; and 4) to coordinate with concerned organisations to integrate cooperation. Financial assistance typically takes the form of soft loans, interest rate subsidies, and grants to fund basic infrastructure projects.

Structurally, NEDA is under the supervision of the MOF. Functionally, it operates under the directives of the Neighbouring Countries Economic Development Cooperation Board (NEDB), whose members are representatives of the government agencies that are directly involved in joint economic cooperation with neighbouring and other countries. NEDA may engage only in transactions that are part of economic cooperation schemes agreed upon by the government. The NEDB oversees the implementation of the cooperative efforts.

NEDA relies primarily on the government subsidies to fund its operations. The financial and technical assistance for neighbouring and other countries is provided on a non-commercial basis. NEDA is not designed to engage in profit-driven transactions and is not mandated to operate with the financial independence of the government. Although the government

² NEDA's loan portfolio consists entirely of long-tenor unsecured term loans with fixed repayment schedules. The principal repayment periods range from 20-30 years. These loans are charged with fixed lending rates not exceeding 2.5% per annum.

does not provide guarantees to back up NEDA's obligations, NEDA's debt constitutes part of the country's public debt. All of NEDA's borrowings require government approval.

NEDA's "20-Year Strategies" (2020-2039) are aligned with the "20-Year National Strategy" (2018-2037) and the "13th National Economic and Social Development Plan" (2023-2027). Key priorities are the promotion of regional trade and logistics, international relations, and sustainable developments. Further, 5-year strategies for each target country outline areas of support. These include cross-border trade, transport infrastructure, energy sustainability, as well as health care and human resource development.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Oct 2021- Mar 2022	Fiscal Year Ended 30 September			
		2021	2020	2019	2018
Total assets	11,960	11,297	11,127	10,138	8,721
Average assets	11,628	11,212	10,633	9,429	8,615
Investment in securities	1,349	1,166	1,319	956	56
Loans and receivables	10,198	9,962	9,100	8,714	8,359
Borrowings and interest payables	2,382	2,263	2,560	2,257	1,533
Shareholders' equities	9,513	8,998	8,487	7,719	7,182
Average equities	9,256	8,743	8,103	7,450	7,200
Total revenue	638	699	957	853	180
Net interest income	58	109	116	108	96
Revenue from government subsidies	580	588	837	742	78
Gains (losses) on investment in joint ventures	0	0	0	0	5
Other operating income	1	2	3	3	1
Expenses related to grants, subsidies, and technical assistance	87	111	112	233	153
Operating expenses	37	77	77	72	63
Net profit (losses)	515	511	768	546	(35)

* Unaudited

Unit: %

	Oct 2021- Mar 2022	Fiscal Year Ended 30 September			
		2021	2020	2019	2018
Earnings					
Return on average assets ¹	8.85	4.56	7.22	5.79	(0.41)
Return on average equities ¹	11.12	5.85	9.47	7.33	(0.49)
Net interest margins ¹	1.01	1.00	1.16	1.19	1.11
Government subsidy/total revenue	90.88	84.10	87.52	86.95	43.34
Net interest income/total revenue	9.02	15.58	12.14	12.71	53.28
Gains on trading/total revenue	0.00	0.00	0.00	0.00	2.56
Other income/total revenue	0.10	0.33	0.34	0.33	0.82
Operating expenses/total revenue	5.79	10.97	8.05	8.66	34.89
Capitalisation					
Debt/equity	24.97	25.11	30.13	29.21	21.25
Shareholders' equity/total assets	79.54	79.65	76.27	76.14	82.35
Shareholders' equity/total loans	93.71	90.73	93.66	88.94	86.25
Funding & Liquidity					
Total loans/total assets	84.88	87.79	81.43	85.61	95.48
Liquid assets/total assets	14.58	11.66	18.02	13.80	3.96

* Unaudited

1 Annualised

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020

Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA)

Issuer Rating:	AAA
Rating Outlook:	Stable

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